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Does your business need a buy-sell agreement?

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Every small business with more than one owner should have some form of a "buy-sell" agreement. A buy-sell agreement protects everyone's interests when a co-owner leaves the company. The agreement helps a business plan for unpredictable events such as an owner's death, retirement, bankruptcy, divorce, disability, or termination of employment. Because the agreement helps to chart out the future ownership and control of a business, it is a key link between a business succession plan and the estate plans of the owners.

There are three general types of buy-sell agreements:

* Entity redemption - the entity has the right or option to purchase membership interests or shares upon the happening of certain stated events.

* Cross-purchase - the owners agree among themselves to purchase membership interests or shares upon the happening of certain stated events.

* Hybrid - the entity has the first option to purchase membership interests or shares, but the entity can assign its right to purchase to the remaining owners.

Buy-sell agreements can stand alone, or their terms can be included in the LLC operating agreement, partnership agreement or other organizational documents. In planning for future transition, the agreements will address the income, control, and equity ownership of the entity.

When implementing a buy-sell agreement, it is important to consider the income, estate and gift tax implications of such agreements. Contact your tax, estate or business planning advisor if you have questions about whether a buy-sell agreement is right for your business.

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